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SUBJECT: VIETNAM'S NATIONAL ASSEMBLY SESSION SHOWS INCREASING BUT STILL LIMITED INFLUENCE

REF: 09 HANOI 1234

¶11. (SBU) Summary and comment. The 12th National Assembly's (NA) 6th month-long legislative session, closing at the end of November, set Vietnam's key social and economic targets, including for the 2010 State Budget. The legislature passed seven laws, including the Law on Royalty Tax and the Law on Telecommunications, and discussed ten other draft bills. Stimulus measures to address the global financial crisis were hotly debated, as was a report on the management of state capital in state-owned enterprises (SOEs), raising concerns about the high debt and low efficiency of these businesses. The lawmakers also reviewed several national key projects, and approved the building of Lai Chau's hydropower plant and Vietnam's first nuclear plant in Ninh Thuan. NA deputies were active in publicly raising their voices in criticism of poor socio-economic governance. The NA's rejection of proposed amendments to two tax laws, as well as its success in reducing the Government of Vietnam's (GVN) proposed budget deficit target, show the NA's growing substantive influence in economic policymaking. However, as subsequent events showed (reftel), the executive branch's making of the final decisions on stimulus measures demonstrates that NA influence, though increasing, is still limited. End summary and comment.

Key Socio-Economic Targets for 2010: 6.5 Percent GDP Growth, CPI Growth Limited to 7 Percent

¶12. (U) Headlining this session was the NA's passage of Vietnam's socio-economic targets for 2010, including: gross domestic product (GDP) growth of 6.5 percent; a consumer price index (CPI) increase limit of 7 percent; export growth of 6 percent; creation of 1.6 million new jobs; and a poverty rate under 10 percent. The chairman of the Economic Committee of the NA acknowledged that the 2010 targets would pose a challenge for balancing growth promotion and control of inflation. While the NA appeared optimistic about the GVN's current ability to control price rises, critics expressed concern about a return of inflation when the economy starts to pick up. Other important targets included the extension of compulsory education to secondary grade 9 throughout Vietnam and ensuring that 45 percent of industrial and export processing zones have water disposal systems that meet environmental standards. The NA addressed Vietnam's energy security, passing resolutions approving investments in the Lai Chau hydroelectricity plant and Vietnam's first nuclear power project in Ninh Thuan.

Target Deficit of 6.2 Percent of GDP

¶13. (U) Limiting Vietnam's budget deficit was a serious NA concern.

While the Ministry of Finance sought a 6.5 percent ceiling for the deficit, the majority of NA members sought to restrain the deficit to within 6 percent of GDP. After much debate, a compromise 6.2 percent deficit target was finally approved, following the recommendation of the NA Standing Committee. Many NA deputies were not persuaded, however, by the government's budget arguments and called for stricter regulations on the state budget. The NA then approved several related measures: (1) seeking the implementation of flexible but closely controlled financial policy; (2) approving the issuance of Government bonds worth VND 56 trillion (\$3.1 billion) to invest in projects to be determined by the NA; (3) increasing authority for self-management, independent of state ownership, for currently unprofitable SOEs, and; (4) encouraging investment in certain SOEs involved in education and healthcare.

Heated NA Stimulus Debate and Conflict with GVN

¶14. (U) Before and during the early days of the NA session, there was heated discussion regarding continuation of the GVN's economic stimulus package and the NA's role in approving any such measures. Some NA members argued that the issue was a budgetary matter mandating NA involvement and approval (citing the NA's authority for approval of bond issuances). NA members generally considered the first stimulus package successful in avoiding a worse slowdown,

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but also agreed that misuse should be prevented. NA members highlighted the fact that much of the stimulus had not reached the intended target of farmers and small and medium-sized enterprises, that it had other shortcomings and its extension could give rise to inflation or other macroeconomic risks. Ultimately, the executive branch made the final decision on further stimulus measures without NA approval, stating that the use of off-budget funds from the SBV gave the executive branch the sole authority to finance and approve the package, rather than the NA. (Reftel)

Public NA Debate on Management of State-Owned Industries

¶15. (U) Beyond the stimulus debate, the NA session provided members the opportunity to exercise their oversight role by questioning GVN Ministers and Vice Ministers, some sessions of which were televised. NA questioning focused on the management of state-owned enterprises (SOEs), the economic stimulus packages, corruption, the possible return of high inflation, food safety, and administrative reforms. Polls conducted by the NA found that public interest was highest on medical care issues (over 74%), education (72.5%), and property taxes (63.7%). According to the polls, about 55 percent of the public was generally satisfied with the NA session and the level of public debate, while about 15 percent of the public reported that they were not satisfied with the NA session.

¶16. (U) The hearing on SOE management was broadcast live, demonstrating high public interest in the subject. While there was general agreement that SOEs have an important role to play, providing employment and economic stability, the NA supervisory report stated that half of the SOE groups and corporations operated at low efficiency and productivity. The report showed that seven major SOE groups owed debts totaling over \$7 billion, an increase of over 20 percent from 2007, accounting for 10 percent of the total credit balance of the economy. There was also debate on the role of SOE inefficiency in causing the inflation surge in 2007-8.

¶17. (U) Though the Vice Chair of the NA, Nguyen Si Dung, publicly stated that SOEs' share of the economy should not be reduced, the

NA criticized SOE inefficiency and activity outside their core areas. Many SOEs have raced to invest in fields outside their core business, incurring large losses. While there was discussion of requiring SOEs to divest of non-core activities, the NA's final compromise position was that SOEs could engage in some non-core businesses, though these should not be their focus. The NA passed a resolution demanding the GVN assess the model of the SOE groups and corporations to make needed adjustments, to request clearer rights, responsibilities and benefits, and to hold managers responsible for the efficiency of their enterprises' operations. To facilitate state inspection and supervision, the NA made regular business reporting mandatory. In addition to the resolution, the NA Economic Committee called for strong measures to deal with inefficient and long-term loss-making SOEs and suggested drafting a law on the management of state capital. NA members also called for a privatization roadmap and the separation of SOE ownership from management.

Seven Laws Passed, Two Rejected

¶8. (U) The NA passed seven laws, rejected two laws, and considered many others on a second reading. Laws passed covered: (1) royalty taxes on natural resources; (2) telecommunications; (3) extending compulsory secondary education; (4) radio frequencies; (5) the elderly; (6) health examination and treatment, and; (7) civil defense forces, establishing a marine militia to protect Vietnam's maritime sovereignty. The Royalty Tax Law replaced the current Ordinance on Royalty Tax, setting more detailed tax rates for metals and non-metal minerals (including crude oil, natural gas, coal gas, and forestry products). While the law narrowed the band between the minimum and ceiling tax rates imposed on certain types of natural resources, including gold and wood, it expanded the potential tax band for key resources including oil (widening to a 6%-40% band from a 6%-30% band) and gas (widening to a 1%-30% band

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from a 0-25% band). U.S. companies criticized the widening band as granting excessive regulatory discretion and introducing unacceptable uncertainty into business transactions. NA members also criticized the Royalty Tax Law for its excessive scope, poor definitions and lack of transparency.

¶9. (U) The Telecommunication Law replaces pre-WTO-accession telecom regulations and is expected to help Vietnam improve its information technology infrastructure and meet its telecom-related WTO commitments. The law regulates a wide range of telecom activities including: investment, business, infrastructure construction, public services, and state management. From now until the law takes effect in July 2010, the Ministry of Information and Communication will continue to receive input from industry on drafting critical implementing regulations. The next round of the US-GVN Information and Communication Technology Dialogue, tentatively scheduled for mid-January, will provide an opportunity for input into the implementing regulations. The focus will include issues such as independent regulators, limitations on foreign ownership, and minimum capital requirements.

¶10. (U) Passed with relatively low support (62%), the Law on Education continued to give the Prime Minister PM) the authority to decide on the establishment of new universities. This ran counter to a broadly supported, earlier NA draft which would have given this responsibility to the Minister of Education, but the NA Standing Committee pushed the NA to let the PM temporarily retain this authority. Expected amendments to the Value Added Tax (VAT) Law and Corporate Income Tax (CIT) Law were not approved during the NA session due to considerable controversy and inadequacies cited in the drafts. Both laws are less than a year old, but the GVN argued they needed revisions, in part, to provide tax incentives

for low income housing. NA deputies suggested other alternatives and voiced doubts as to whether the proposed changes would benefit the intended people, pointing out many loopholes in the drafts.

Draft Laws Under Discussion: Property Taxes, State Bank Independence, Food Safety

¶11. (U) Laws and amendments discussed on first reading, but not passed, included: the State Bank of Vietnam (SBV); credit institutions; housing and land taxes; child adoption; civil sentence executions; energy usage efficiency; food safety; the disabled; postal services and trade arbitration. These laws and amendments are currently scheduled to be passed in the NA's May 2010 session. The draft Housing Tax Law, which for the first time proposed property taxes, raised much controversy. Most NA deputies felt the tax was unreasonable, suggesting that home ownership was a civil right and that the law would impede home ownership.

¶12. (U) Little progress was made towards central bank independence. The latest version of the SBV law contained ten provisions intended to transfer authority from parts of the GVN to the SBV. At issue was the extent to which the SBV's role should move beyond maintaining the value of the currency to conducting monetary policy. Some NA members said the SBV should be given a greater role in controlling inflation. There was, however, disagreement on the proposed removal of the base interest rate in the SBV law and on resolving the conflicting authority of the NA, GVN and SBV in determining monetary policies, especially setting annual inflation targets. Most NA members were not satisfied that the provisions actually transferred additional authority to the SBV. The NA ultimately agreed that the SBV would continue to be a ministry level agency under the GVN, at least in the medium term.

¶13. (U) While the draft food safety law largely focused on enforcing state management and raising fines, the draft also included mandatory labeling for genetically modified (GMO) food. Despite strongly voiced U.S. concerns regarding the draft law, particularly the provision on mandatory labeling and that no specific handling, usage, safety, or compositional characteristics have been identified to distinguish GMO products from other food,

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no objections to the mandatory labeling requirement were raised during NA discussion. On other draft laws, amendments to the Law on Credit Institutions were considered too stringent by some NA deputies because they would prevent credit institutions from investing in each other, halve investors' maximum ownership ratio at banks, and give the SBV too much authority to intervene in operations of banks.

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